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## RECONSTRUCTION IN GREAT BRITAIN FOLLOWING THE WAR

By Sir H. BABINGTON SMITH, K.C.B.

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THE word "reconstruction" has a very wide application. Not only must the destructive processes of the last four years be reversed, but it is hardly too much to say that the whole framework of civilization is in need of reconstruction after the war. The word is used in several different senses which it will be convenient to distinguish.

1. Reconstruction, in its most limited sense, applies to the reparation of actual damage done by the war. This includes the rebuilding of houses, villages and towns which have been destroyed; the replacement of industrial plants and machinery which have been destroyed or carried off; the restoration of mines, railways, canals, roads, woods, orchards and so forth, and of the surface of the soil itself.

This problem is a large and urgent one, but its primary interest is for those nations on whose territory the land war has been waged. Except in one particular, with which I shall deal immediately, Great Britain is interested, not directly, as having suffered such damage, except in a minor degree; but indirectly, in seeing that all possible measures are taken to ensure that those allied countries which have been devastated shall be restored as completely and rapidly as possible, and in contributing, in such ways as may be possible, to the supply of materials or transport for that purpose.

It is in shipping especially that Great Britain has suffered losses, owing to the operation of German submarines without any restriction of law or humanity. The British losses of mercantile shipping from the beginning of the war up to October 31, 1918, from enemy action and marine risk amounted to 9,032,000 gross tons. The additions to British mercantile tonnage in the same period from new construction, from tonnage purchased abroad, and from enemy tonnage captured, amounted to 5,589,000 gross tons, leaving a net reduction in British tonnage of 3,443,000 tons, mainly due to hostile action.

The world's losses, excluding enemy countries, amounted to just over 15,000,000 tons. The new construction was 10,849,000 tons, and the enemy tonnage captured 2,393,000 tons, making together 13,242,000 tons, and leaving a net reduction

of 1,811,000 tons. It will be seen that while British tonnage has lost 3,443,000 tons, the rest of the non-enemy world has actually gained on balance 1,632,000 tons.

There will undoubtedly be a claim upon all existing enemy tonnage to make good the marine losses of the Allies from illegal enemy action; but as the total German tonnage before the war was under 5,000,000 gross tons, and the tonnage possessed by other enemy countries was very much less than that, and, as a considerable part of this has already been captured or requisitioned by the Allies or America, it is obvious that only a part of the losses can be made good in this way.

British mercantile shipbuilding during the war has been heavily handicapped by the demands of naval shipbuilding, by the withdrawal of labor for military service, and by the great amount of repair work that was required both for the British and American Navies and the merchant marine. Out of 381,000 men, who were engaged shortly before the end of the war in shipbuilding, in marine engineering, and in repairs, only 116,000, or considerably less than one third, were engaged in new merchant-ship work. A considerable amount of repair and refitting will still be required after the war; but with the return of the men from the army, and with the cessation of the urgent needs for naval shipbuilding, it may be anticipated that the outturn of new ships will be rapidly increased. The tonnage completed in the year ending October 31, 1918, was 1,600,000 gross tons, and it is anticipated that, when peace conditions are reestablished, the annual output from British yards may reach 3,000,000 tons. It will, however, take some time before this rate is attained. Apart from any contribution from German shipping, it will probably be at least eighteen months, perhaps longer, before the destruction of war is made good; and it will, of course, be considerably longer before the normal increase which would have taken place in the last four and a half years, and the normal replacement of worn-out ships, will have been overtaken. During that time, the output of American yards, and of the yards of other countries will continue at a rapid rate; and, unless sane and long views are taken and suitable measures concerted, it is probable that in three or four years' time the world's shipping will be largely in excess of the world's needs, with disastrous results for ship-owners and shipbuilders.

2. In its second meaning, the word "reconstruction" comprises the whole process of turning over from war to peace; the

process in fact of demobilization in its widest sense—military, naval, industrial and financial.

Military and naval demobilization can only be carried out partially while we are awaiting the final conclusion of peace. During the period of the armistice and of the peace conference, armies, and to some extent navies must remain upon a war footing; and, even after the final signature and ratification of the peace treaty, or treaties, it is possible that considerable forces may be required for the occupation of territories, pending the execution of the conditions of peace, and for purposes of international police.

Careful study has been given in Great Britain to the problems of demobilization. During the present period of partial demobilization, steps are being taken to release as many as possible of the men whose services are required in preparation for general demobilization. Such men are, in the first place, those described as *demobilizers*—that is to say, men whose services will be required for working the mechanism of demobilization—and secondly, *pivotal* men, that is men who are necessary for the reestablishment of industry on a peace basis, and for preparing the way for the reemployment and reabsorption of labor. Arrangements are also being made for regulating the priority of release, when the general demobilization starts. This priority will depend upon a number of factors. Men for whom a job is definitely waiting will be released first; priority being given at the same time to those trades—such as mining, ship-building, transport, building materials, agricultural machinery, etc.—for which there is a specially urgent demand, since their activity is a condition precedent to the full activity of other industries. Consideration will also be given to the claims of men with the longest service in the army, married men, and men, who, on the ground of special hardship, deserve early release. A furlough of twenty-eight days, with pay and ration allowance will be given to each man on his release.

A comprehensive scheme has also been drawn up for giving special intensive educational training to men who, owing to the interruption caused by military service, have lost touch with their particular professions and businesses, and measures have been taken for giving vocational training to men who have been maimed, or otherwise incapacitated for their former employment.

The demobilization of civilian workers, who have been employed on munitions work, will take place at an earlier date

than the military demobilization, and will require equally careful organization. Arrangements were made to prevent, as far as possible, any immediate general discharge of munitions workers, upon the cessation of hostilities, and steps were taken to facilitate, by free transport and other measures, the return of munition workers to civilian employment. This task is aided by the fact that sixty per cent. of the persons employed in munitions industries were at work, for war purposes, upon industries in which they would, in the ordinary circumstances, be working for peace purposes; but a special difficulty arises from the large quantity of female labor which has entered industry, the munitions industry in particular, during the war in order to meet the deficiency of male labor.

However good the arrangements may be, it is certain that in many cases the individual soldier or civilian may have to pass through a period of unemployment before he is reabsorbed in peace industry. To provide for this, a special unemployment donation will be given for a maximum period of thirteen weeks in the case of the civilian worker, and twenty-six weeks in the case of the soldier. This donation is payable during any period of actual unemployment occurring in the first year after discharge in the case of the soldier, and in the first six months in the case of the civilian, provided that the claimant has endeavored to obtain employment through the labor exchanges.

Another process which forms part of demobilization, is the disposal of surplus property. There is a vast quantity of property, both raw materials and finished articles, in use or in reserve for military purposes. The value of such property is probably not less than two and a half billion dollars. In the interest of the tax payer it is necessary to guard against improvident selling; and it is also desirable to avoid the dislocation of trade which would result from too hasty a disposal of this property. It is possible, also, that organized schemes for the use of surplus property may be desirable; for instance, that the trucks and other automobiles which are no longer required for military purposes, should be used to set up schemes for rural transport for the benefit of agriculture. A special department in close relationship to the Ministry of Munitions has been set up to deal with this problem, and to dispose of all kinds of surplus property.

I have spoken of the industrial demobilization so far as it affects labor, but there is another side to it also—the question of the utilization of plants which have been created for the manufacture of munitions, or which have been specially modi-

fied for that purpose. In some cases the transition is easy. One factory, at least, which on November 11 was engaged on pure munition work, started on commercial work of a totally different kind on November 12. Textile factories, which have been making cloth for uniforms, or other materials for military use, can readily turn over to peace requirements. If the work has to be different in kind, the transition takes longer to effect. The nature of the changes in contemplation is shown by the following specimens from reports received by the Ministry of Munitions. Some manufacturers who have been producing aero-engines are going to make engines for motor cars, or for small launches. One firm, which has been manufacturing fuses, is turning over to the manufacture of electric fittings, another to motor accessories. In other cases, the change is more radical. An aeroplane factory will turn to household furniture and heavy toys. A firm at Newcastle-on-Tyne, which has been making guns will build locomotives and will employ 5,000 hands. Several munition firms are taking up the manufacture of hosiery needles and hosiery bearded needles, which in pre-war days were almost entirely imported from Germany. Other munition firms are preparing to make dairy utensils, boot machinery, fountain pens, typewriters and so forth.

On the whole, the problem is not so difficult as that which had to be faced in the early days of the war. The change from peace production to war production was a change from the known to the unknown. The return to peace again means going back in most cases to the known.

All these industries will require raw materials. The war has made it necessary for the government to assume control of stocks and supplies of almost all raw materials. It will not be possible to relax this control all at once, and the system of priority permits, and of export and import licenses may have to be continued for a time, in order to secure fairness in distribution, and in order that our obligations to the allied countries may be observed. The object will be to remove restrictions and regulations as soon as it is practicable to do so.

The problem of "financial reconstruction" may be divided into three branches, which are to some extent mutually interdependent, viz., national finance, currency and exchange.

The total expenditure of the United Kingdom from the beginning of the war to the present time amounts approximately to nine billion pounds (45 billion dollars), of which one quarter has been raised by revenue and three quarters by borrowing. Translating, for convenience, sterling into dollars,

the national debt at the beginning of the war was three and a half billion dollars. It is now more than ten times that amount—thirty-six billion dollars. Against this, however, must be set various assets. We have advanced to the British Dominions more than one billion, to the Allies nearly seven and a half billions, making a total of eight and a half billions. A part, also, of the expenditure is recoverable; for instance, expenditure on food and raw materials which will be sold to the public, and the value of surplus stores, factories, etc. The ultimate value both of the advances and of the other assets is very difficult to estimate, but taking advances and realizable assets together, it is probably not less than ten billion dollars. This will make the net national liabilities at the end of the war, amount to something like 25 billion dollars. If six per cent. be allowed on this sum, in order to provide a substantial sinking fund as well as interest, the service of the debt will cost one and a half billion dollars per annum. The pre-war budget amounted to about 850 million dollars per annum, and to this must be added a large sum, perhaps half a billion, for pensions and other charges arising out of the war, and for necessary increases of expenditure. It may be guessed, therefore, that the annual post-war budget will be not less than two and three fourth billion dollars. There can be no doubt as to the ability of the United Kingdom to meet this charge when its energies are applied to peaceful production, but it will involve very heavy taxation, and one of the most difficult problems of reconstruction will be how to raise the necessary sum with justice to all portions of the community, and without placing burdens upon industry and commerce so heavy as to repress enterprise.

The various questions arising in connection with currency and the foreign exchanges during the period of reconstruction have recently been examined by a committee of experienced bankers and business men under the chairmanship of Lord Cunliffe, the late governor of the Bank of England. It appears from this Committee's report that the total issue of Bank of England notes and currency notes on July 10, 1918, was £343,000,000, of which £94,000,000 was covered by gold coin and bullion, and £249,000,000 represented the fiduciary issue. On June 30, 1914, the note issue amounted only to £57,000,000. There had thus been an increase of £256,000,000 in the note issue; but this increase has been accompanied by a reduction of £83,000,000 in the amount of gold coin in public circulation. It would occupy too much of your time if I were to reproduce the committee's analysis of the causes which have brought

about this great expansion of legal tender currency. I may, however, briefly summarize their conclusions:

They consider it imperative that, after the war, the conditions necessary to the maintenance of an effective gold standard should be restored without delay. The first condition is that government borrowing should cease as soon as possible, and that an adequate sinking fund should be provided out of revenue so that there may be a regular annual reduction of capital liabilities. They recommend that the present currency notes should be gradually withdrawn and that the note issue should, in future, as in the past, be entirely in the hands of the Bank of England, subject to the existing rules of the Bank Charter Act, viz., that there should be a fixed fiduciary issue beyond which notes should only be issued in exchange for gold. They recommend that the gold reserves of the country should be held by the Bank of England, and that the amount to be aimed at should be in the first instance £150,000,000.

The committee would rely upon the operation of the Bank of England's discount rate for checking any outflow of gold, and for bringing, as in the past, the necessary regulating influence to bear on the foreign exchanges.

It must be borne in mind, however, that the maintenance of the foreign exchanges,—that is, of our ability to meet payments abroad,—depends primarily upon the balance of trade, and that the effect of a high discount rate in attracting floating balances is only a temporary remedy, except in so far as its indirect effects react upon the currents of trade. The position of the United Kingdom in respect of the trade balance has been materially altered for the worse by the war. Securities to a large amount have been sold in America in order to provide funds for purchases of munitions, food and raw materials, with the result that the interest on these securities, which contributed to the favorable balance between the United Kingdom and America, will no longer be remitted to London. Loans have been contracted in America and elsewhere, and the interest on these loans will have to be paid. The British Mercantile Marine has been depleted, and the amount receivable from other countries for freight will be proportionately diminished. It results from these causes that if an adverse balance of trade is to be averted, the United Kingdom must either export more, or import less, or both. In order to meet our obligations it will be necessary that every effort should be strained to increase production, both agricultural and industrial, and to diminish all unnecessary consumption.



If Britain is compelled to use every effort to increase to the utmost the industrial and agricultural production of the British Isles, and so render herself independent as far as possible of supplies from abroad, it must be remembered that one main object of this effort is the maintenance of our ability to pay our debts to other countries, and, in particular, to America. But the resumption even of normal production, and of the normal export trade from the United Kingdom must take time; and, in the interval purchases from the United States to the full amount required can only be made possible by the extension of credit in some form.

3. In the third and widest sense, "reconstruction" includes the solution of a large number of questions affecting the future welfare of the world to which the war has given special urgency and importance. Even to touch upon these would take me too far. International questions of this character form the greater part of the subject matter of the peace negotiations. Perhaps the most vital in the internal sphere is the great group of questions concerning the relations of labor and capital, employer and employed, industry and the state.

Other questions are those of rural development, including such matters as the replanting of forests, small holdings for ex-soldiers and others; housing; education; public health; railways and transportation; electrical supply on a large scale;—all these and many others are under discussion as parts of the great reconstruction which will occupy the world not for months only, but for years, perhaps for generations.

## CHINA AFTER THE WAR

By CHAO-HSIN CHU

THE CONSUL-GENERAL OF CHINA AT SAN FRANCISCO

**I** TAKE great pleasure in presenting for your consideration a few thoughts as to the position of China after the war, and I much appreciate the opportunity so to do.

China is one of the oldest nations in history, but perhaps one of the slowest in scientific advancement, for I must admit that China has been backward in science. And yet, with it all, is it not true that some of the great inventions of the world had their start in China? Gunpowder, which has been used to such a great extent during these last four years of warfare, had its origin in China. Our trouble has been that our scientific inventions have not been effectively developed; in